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11. (U) This cable contains the Japan Economic Scope from August 2,
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13. (SBU) LDP Crushed By DPJ in Upper House Election

Prime Minister Abe's Liberal Democratic Party (LDP) suffered a crushing defeat in the July 29 Upper House elections, returning only 37 of 64 incumbent seats and in the process losing control of the chamber.

The main opposition Democratic Party of Japan (DPJ) was the big winner, garnering 60 seats to make it the largest party in the Upper House. Prime Minister Abe has said repeatedly since the election that he intends to remain in office despite the party's losses but public opinion polls show that support for his administration is very low.

For a complete readout of the election results see Tokyo 3475.
For a look at the August schedule refer to Tokyo 3491. (ECON: Joan Siegel)

14. (SBU) Agriculture Minister Steps Down

Just hours before he was scheduled to get on a flight bound for Washington for meetings with Agriculture Secretary Johanns and U.S. Trade Representative Schwab, Japan's beleaguered Agriculture

Minister, Norihiko Akagi, resigned August 1.

Since assuming the post after his predecessor committed suicide May 28 over corruption allegations, Akagi has been hounded by his own financial scandals. After the ruling Liberal Democratic Party's (LDP) stinging defeat in upper house elections on July 29, PM Abe promised a cabinet reshuffle and pointedly singled out the Agriculture Minister.

Akagi was called to the Prime Minister's office on August 1 and announced afterwards to reporters that he had tendered his resignation. This came two days after he asserted he had no plans to step down.

According to a Mainichi report, Abe had him sign a resignation letter on the spot. The Prime Minister reportedly reassured Akagi that he was still a young man, only 48, and would have time to resurrect his career.

The resignation may have come too late to calm PM Abe's detractors. According to press reports after the announcement, many in the LDP's leadership were critical that the decision did not come sooner.

Meanwhile, the opposition says it will pursue an investigation of the Prime Minister's role in hiring Akagi in the first place and sticking by him after corruption allegations came to light. "The Prime Minister demonstrated a lack of ability to manage the cabinet," said Naoto Kan, acting president of the opposition Democratic Party of Japan, to reporters. He and other opposition leaders are calling on Abe to step down.

Said one unidentified former cabinet member quoted in the Tokyo

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Shimbun of PM Abe, "Everything he does is too late and a halfway measure." (ECON: Nicholas Hill)

15. (SBU) Expert Level Beef Talks Resume in Tokyo

A delegation of experts from several different agencies arrived in Tokyo for a second round of talks to discuss Japan's policies on U.S. beef trade August 2-3.

John Clifford, Deputy Administrator of Veterinary Services at APHIS, is heading a delegation that includes others from USDA, USTR, FDA, FAS, and the Embassy.

Prior to the talks, a DVC took place between senior level officials to discuss a general outline of what the two sides hope the dialogue would produce in coming weeks. The United States has insisted that, with a World Animal Health Organization decision in May pronouncing U.S. beef safe, or in a "controlled risk" category, that Japan would adopt science-based, international standards and not place onerous restrictions on trade.

Owing to the political sensitivities of the beef issue, the United States has not yet received assurances that Japan is prepared to align its policies with the OIE. We will report the results of our bilateral discussions in more detail by cable. (ECON: Nicholas Hill)

16. (SBU) METI Urged to Play More Assertive Role on FTA Policy --

An advisory body the Trade Ministry (METI) convenes to advise it on economic policy wants the Ministry to be more assertive in promoting a more aggressive FTA stance.

A METI official told us that the Industrial Structure Council, chaired by Japan Business Federation head Fujio Miterai, expressed concern August 1 that Japan was falling behind Korea and others in pushing an FTA agenda.

It encouraged Japan to pursue FTAs with "large" partners, e.g. the European Union or United States.

The Council, consisting of 24 members from business and the academic community, meets only once a year to discuss the direction it would like to see the government take on economic policy. (Econ: Nicholas Hill/Ryoko Nakano)

17. (U) Corporate Value Study Group Recommendations for Fair MBO

On July 31, the Trade Ministry's (METI) Corporate Value Study Group, chaired by Professor Hideki Kanda of the University of Tokyo, compiled a report on measures to ensure fair treatment of minority shareholders during management buyouts (MBOs).

Some of the recommendations included in the report are:

- Avoiding arbitrary pricing and MBO conditions by consulting external directors or a third party committee before conducting the MBO;
- Providing written explanations to shareholders if the MBO is conducted after management announces the downward revision of company performance or earnings;
- Recommending that the takeover bid (TOB) period under the MBO be relatively long, so that a third person can conduct a counter bid against management, and the shareholders have opportunities to consider several alternatives; and
- In case of a successful MBO, recommending that all shares be acquired and the target company become a subsidiary, so that opposing shareholders can be provided a chance to liquidate their shares after the TOB period.

Based on the recommendations in this report, METI will establish the guidelines for MBOs in mid September. (ECON: Satoshi Hattori)

18. (SBU) U.S. Participation in Kita Yard Redevelopment: Osaka City's Disappointing Response

ConGen and ACCJ Kansai held joint meetings last week with Osaka

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City regarding the Kita Yard urban redevelopment project in the center of the Umeda business district.

The project, similar to Tokyo's Shiodome redevelopment, involves turning a large rail yard into a multi-purpose commercial, accommodation, and educational center at the largest rail terminal in western Japan in two multi-year phases.

The purpose of the meetings was to increase U.S. corporate participation in the planning phase, to try to find more information on export and procurement opportunities, and to stress to local Japanese officials the U.S. interest in the local economy.

Despite the stacks of glossy brochures and otherwise positive signals by civic leaders, the city's lackluster and overly bureaucratic response to the possibility of foreign investment promotion was disappointing.

The ACCJ is taking further corporate soundings, however. For a PowerPoint presentation on the project contact Phil Cummings. (Osaka-Kobe: Phil Cummings)

19. (U) Core Consumer Prices Down in June, 5th Consecutive Monthly Drop

Japan's nationwide core CPI, which excludes perishable food items, fell 0.1 percent in June from the year before, the same rate of decline as in each of the previous two months and the fifth consecutive monthly decline, the Ministry of Internal Affairs and Communications (MIC) announced July 27.

This result was in line with the market consensus forecast.
Overall, CPI was down 0.2 percent in June from a year earlier.
(FINATT: Shuya Sakurai)

¶10. Revised Labor Laws Enacted

Various labor-related laws were passed during the 166th Ordinary Diet session on July 5, including the revised Part-Time Work Law and the Employment Measure Law.

The revised Part-Time Work law provides that part-time workers receive similar treatment to that of regular workers to create a so-called "balance of treatment" for both categories of workers. The revised Employment Measure Law prohibits firms from placing age limits when recruiting and hiring, and obliges them to report on the employment of foreign workers.

Bills related to the revised Minimum Wage Law and Labor Standards Law were postponed due to the Diet's preoccupation with the loss of 50 million pension records.

The Japanese Trade Union Confederation (Rengo) criticized the opposition and ruling parties for carrying these bills over to the next Diet session, blaming it on party politics. (ECON: Virsa Hurt)

¶11. (SBU) U.S.-Japan Aviation Negotiations in September

The next round of U.S.-Japan civil aviation negotiations will take place in Tokyo on September 11-13. EEB Transport DAS John Byerly will lead the U.S. delegation. (ECON: Josh Handler)
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¶12. (U) Kansai Leaders Fete Opening of KIX Second Runway

Political leaders from western Japan, including Ministry of Land, Infrastructure and Transportation (MLIT) Minister Fuyushiba, and other dignitaries attended the celebration in honor of the August 2 opening of the second runway at KIX, which, when fully operational, will make KIX the first Japanese airport with true round-the-clock operations.

For further details see the attached readout. (Osaka-Kobe: Phil Cummings/Hideo Shibuya)

¶13. (SBU) MOF Nixes Additional Financial Support for KIX

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Despite Kansai International Airport Co.'s (KIAC) heavy lobbying, Ministry of Finance (MOF) Administrative Vice-Minister Hiroki Tsuda announced in a recent press conference that MOF will not

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authorize additional financial support for KIAC.

KIAC's 1.18 trillion yen debt from construction fees is forcing the island airport to charge higher landing fees, which is hurting its competitiveness. KIAC insists it is receiving unequal treatment by the GOJ in comparison to Narita airport, which was initially owned and financed by the government before being privatized.

GOJ has previously been requesting local governments and businesses to help support KIAC; however, Nikkei Shimbun-Kansai reported this week that the recent reduction in international flights by American and Northwest Airlines has caused local governments to question the utility of their continued support. (Osaka-Kobe: Phil Cummings/Scott Ravenhill/Naomi Shibui)

¶14. (U) New KIX -- HND Flights Awarded to Star Flyer

According to Kansai International Airport Co., Ltd. (KIAC), the Ministry of Land, Infrastructure and Transportation (MLIT) has decided to allot the four new Kansai International Airport (KIX) -- Haneda (HND) flights to Kitakyushu based Star Flyer Inc. Star Flyer intends to begin operating the service on September 14. A KIAC official said they would like to use the new KIX -- HND flights to get more international passengers from the Tokyo metropolitan area to fly out of KIX when flights from Narita are sold out. He added that the new flights between KIX and HND will hopefully contribute to an increase in U.S. routes from KIX. On a side note, in a recent Sankei Shimbun-Osaka article, KIAC President Atsushi Murayama stated his intent to approach Asian airline carriers to discuss the creation of new flights to the U.S. via KIX since U.S. and Japanese airlines are currently mired in economic difficulties. (Osaka-Kobe: Phil Cummings/Scott Ravenhill/Naomi Shibui)

115. (SBU) Earthquake Dents Japan's Auto Industry -- More

Tokyo 3507 elaborates on last week's Scope piece covering the effect of the Niigata quake on the Japanese auto industry. Of note are the auto industry and the Trade Ministry's (METI) defense of the just-in-time lean production system.

To critics who claim the earthquake has revealed a major weakness in the concept, the auto companies and METI assert the opposite: a flexible workforce not inventory stockpiles is the best way to balance risk and costs.

The impact of a major disaster in Japan on manufacturing globally, however, remains a matter of concern. (ECON: Josh Handler)

116. (SBU) Honda Motors on DHS's CBP Advance Trade Data Elements and C-TPAT

Honda Motor Company recently visited the Embassy to provide feedback on U.S. Custom and Border Protection's (CBP) proposed Advance Trade Data Elements (ATDE) requirement.

Honda also outlined some of the company's experiences with the C-TPAT program.

While supportive of U.S. port security programs, Honda is concerned that security requirements have lengthened its supply chain and increased its inventory requirements.

Accommodating the ATDE's new data field requirements, moreover, will be a time-consuming and expensive process.

Honda finds the C-TPAT validation programs to be poorly coordinated and uneven in their thoroughness.

The EU has similar requirements, but a different database format which adds to the expense and difficulty of managing the security programs.

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CBP may wish to do more outreach to the Japanese export community in Japan to build goodwill and continue to encourage cooperation with CBP programs. A cable covering the meeting will be out shortly. (ECON: Josh Handler)

117. (U) Back to the Minors for Keigawa

Kei Igawa, the Yankees \$46 million Japanese import, was slammed for five runs against the Kansas City Royals July 27.

Immediately after the game, the Yankees announced that he was being sent back to the minors.

Igawa's performance with the Yankees suffers in comparison to the

Red Sox' ace Japanese imports Daisuke Matsuzaka and Hideki Okajima. In 62 innings of work, Igawa's era is 6.79. He has two wins and three losses.

His cost to the Yankees' already bloated payroll works out to about \$742,000 per inning, more even than what Roger Clemens will end up making this year. (ECON: Nicholas Hill)
SCHIEFFER